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UNCLAS SECTION 01 OF 02 TEL AVIV 000518

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SUBJECT: SHIMON PERES ON PALESTINIAN 'COHABITATION'

REF: TEL AVIV 391

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11. (SBU) Summary: In a February 1 meeting with the Ambassador, Shimon Peres reiterated a pitch for U.S. financial support for Negev/Galilee development and political support for private-sector-led development of the Jordan Valley. The Ambassador stressed the importance of supporting the caretaker PA government and President Abbas, including the continuation of VAT and customs transfers. Peres reported that Abbas had made three demands of Hamas (see para 2 below). Peres, although not currently in government, said he expects a continuation of GOI support unless/until a Hamas government is formed that remains hostile to Israel. Peres said Kadima's parliamentary list would reflect the Israeli electorate, and would prove to be a "new center" in Israeli politics. He discounted the political threat posed by Netanyahu. End Summary.

ABBAS MAKES DEMANDS ON HAMAS

12. (SBU) Shimon Peres likened the Palestinian political situation to a period of 'cohabitation' akin to the period of Mitterrand/Chirac powersharing in France during the 1980s. He argued that President Abbas retained responsibility for security and negotiations, but acknowledged that the PA President would not likely control the Finance Ministry in a Hamas-led government. Peres reported that President Abbas had made three demands of Hamas:

-- that Hamas respect the positions of "international legitimacy" adopted by the international community;

-- that Hamas accept Arab League positions, including the Beirut Declaration;

-- that Hamas respect agreements between Israel and the Palestinian Authority, including Oslo and the roadmap.

Peres agreed with the Ambassador's assessment that Hamas would soon face contradictions between its desire to govern (the PA) and running a terror campaign. Peres predicted that the initial Palestinian enthusiasm about Hamas will evaporate with time. If Hamas cannot pay salaries of the PA, including security forces, that will be the end of Hamas, according to Peres. The Ambassador said that the reality of governing would soon intrude on Hamas ideology.

ISRAEL ISN'T CORNERED; KADIMA ISN'T HURT

13. (SBU) Peres expressed confidence in Israel's ability to deal with the consequences of the January 25 election. The Ambassador asked Peres about relations with the PA. Peres said he expects that the GOI "won't change," i.e. Israel would continue to cooperate with the caretaker PA government, including transferring VAT and customs revenues. "We shouldn't proceed as if we are the ones that want to cut Abu Mazen off," Peres stressed. Peres added that Palestinian developments had not hurt Kadima. He discounted the political threat posed by Netanyahu: "He wants to be on the Right and be perceived as in the Center, but this is unconvincing."

HELPING THE PALESTINIAN ECONOMY:
LOOK TO NEIGHBORS, NOT ISRAEL

14. (SBU) In response to the Ambassador's question, Peres said a delay in the formation of a Palestinian government would not affect Israeli politics unless bombs start going off. Peres argued that economic means must be found to fight "the reasons for terror." The Ambassador noted, in this regard, that the Karni crossing had been closed for three weeks, but Peres seemed unconcerned by the impact of this closure on the Palestinian economy. He suggested that the Palestinians could export produce via El Arish, Egypt, rather than through Israel. Peres also pitched Israeli-Palestinian-Jordanian cooperation from the Red Sea to the Yarmouk River in Israel's north -- a sort of Jordan River Authority that would rescue the Dead Sea while building on the success of the QIZ concept. Peres said private financing could be relied upon for such an initiative (see reftel for elaboration on Peres' thinking).

NEGEV/GALILEE DEVELOPMENT:
A PITCH FOR U.S. FINANCIAL SUPPORT

15. (SBU) Peres confirmed that he will re-engage on Negev/Galilee development planning should Kadima win election on March 28. He recalled the GOI's ten-year plan to invest 17 billion shekels (approximately four billion USD) in the Negev over ten years, starting with a one billion shekel outlay in 2006. Peres noted that he had spoken recently to the Secretary about the Israeli request for 2.1 billion USD, two-thirds of which would go to Negev/Galilee development and another third for security along the Israel-Egypt border and to cover the costs of disengagement. He hoped such funding could be requested in a February supplemental request to Congress.

16. (U) Peres said 150 thousand Negev Bedouin are ripe for democracy and modernity, and claimed (note: unconvincingly to us) that the Bedouin would welcome the opportunity to live in modern high-rise apartments clustered in rapidly expanding Negev towns such as Rahat. The Ambassador commented that Israel had good reason to create economic incentives for developing the Negev and Galilee. Both agreed that the Olmert government had been correct in removing the illegal outpost of Amona in the West Bank.

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JONES